



Your
**CREDIT
UNION**

It's all about people



Financial Statements
For the year ended September 30, 2009

Your Credit Union Limited
Financial Statements
For the year ended September 30, 2009

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Management Report

Management's Responsibility for the Financial Statements

The accompanying financial statements of Your Credit Union Limited for the year ended September 30, 2009 are the responsibility of the Credit Union's management and have been prepared in compliance with legislation and in accordance with Canadian generally accepted accounting principles. The accounting policies followed by the Credit Union are included in the notes to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

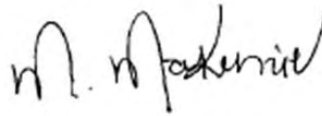
The Credit Union's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

The Audit Committee of the Board of Directors meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to the Audit Committee's approval of the financial statements.

The financial statements have been audited by Collins Barrow Ottawa LLP, independent external auditors appointed by the Credit Union's members. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Credit Union's financial statements.



Denis Laframboise
Chief Executive Officer



Melissa MacKenzie, CA
Chief Financial Officer

October 30, 2009



Auditors' Report

To the Members of Your Credit Union Limited

We have audited the balance sheet of Your Credit Union Limited as at September 30, 2009 and the statements of operations and undivided earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Credit Union as at September 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Ottawa LLP

Chartered Accountants, Licensed Public Accountants

October 30, 2009

Your Credit Union Limited Balance Sheet

(Tabular amounts expressed in thousands of dollars)

September 30 **2009** **2008**

Assets

Cash and cash equivalents (Note 3)	\$	9,513	\$	15,927
Investments (Note 4)		24,740		19,969
Loans to members (Note 6)		155,273		148,732
Property and equipment (Note 7)		5,271		5,540
Other assets				
Accrued interest receivable		295		355
Accounts receivable		79		88
Income taxes receivable		82		144
Prepaid expenses and other assets		597		492
Unrealized loss on derivative financial instruments transactions (Note 19)		265		19
		196,115		191,266
	\$	196,115	\$	191,266

Liabilities and Members' Equity

Liabilities

Members' deposits (Note 8)	\$	184,430	\$	178,943
Other liabilities				
Accounts payable and accrued liabilities		582		876
Future income tax liabilities		28		60
Unrealized gain on derivative financial instruments transactions (Note 19)		265		19
Members' shares (Note 9)		3,586		3,751

Members' equity

Undivided earnings		7,224		7,617
		188,891		183,649
	\$	196,115	\$	191,266

On behalf of the Board:

Judi Marshall

Director

David Leach

Director

Your Credit Union Limited
Statement of Operations and Undivided Earnings
(Tabular amounts expressed in thousands of dollars)

For the year ended September 30	2009	2008
Interest revenue (Note 11)	\$ 8,063	\$ 8,867
Investment income		
Interest and other investment revenue	695	874
Write-down of investment in CUOCO shares and investment in ABCP Limited Partnership (Note 4)	<u>(272)</u>	<u>-</u>
	423	874
	8,486	9,741
Interest expense (Note 12)	<u>4,068</u>	<u>4,733</u>
Financial margin	4,418	5,008
Other revenue	<u>1,611</u>	<u>1,305</u>
	6,029	6,313
Operating expenses		
Salaries and benefits	3,499	3,740
Amortization of property and equipment	342	331
Provision for losses on loans (Note 6)	151	174
DICO deposit insurance	220	147
Administrative expenses	<u>2,371</u>	<u>2,473</u>
	6,583	6,865
Operating loss	(554)	(552)
Dividends on membership shares	<u>-</u>	<u>47</u>
Loss before income taxes	<u>(554)</u>	<u>(599)</u>
Income taxes (recovered)		
Current	(129)	(139)
Future	<u>(32)</u>	<u>3</u>
	(161)	(136)
Net loss for the year	(393)	(463)
Undivided earnings, beginning of year	<u>7,617</u>	<u>8,080</u>
Undivided earnings, end of year	\$ 7,224	\$ 7,617

Your Credit Union Limited Statement of Cash Flows

(Tabular amounts expressed in thousands of dollars)

For the year ended September 30	2009	2008
Cash flows from operating activities		
Net income (loss) for the year	\$ (393)	\$ (463)
Adjustments for non-cash items		
Dividends on Class B Investment shares	86	144
Provision for losses on loans	151	174
Amortization of property and equipment	342	331
Future income taxes (recovered)	(32)	3
Net decrease (increase) in fair value of financial instruments	152	50
	306	239
Net changes in non-cash working capital items (Note 13)	(268)	(45)
	38	194
Cash flows from investing activities		
Net decrease (increase) in investments	(4,923)	(3,120)
Net decrease (increase) in loans to members	(6,692)	(1,647)
Net disposal (purchase) of property and equipment	(73)	(96)
	(11,668)	(4,863)
Cash flows from financing activities		
Net increase (decrease) in members' deposits	5,487	12,624
Net increase (decrease) in membership shares	(26)	1
Net increase (decrease) in Class B Investment shares	(225)	(311)
	5,236	12,314
Increase (decrease) in cash and cash equivalents	(6,414)	7,645
Cash and cash equivalents, beginning of year	15,927	8,282
Cash and cash equivalents, end of year	\$ 9,513	\$ 15,927
Supplementary information		
Interest paid	\$ 4,260	\$ 4,194
Income taxes paid (recovered)	\$ (191)	\$ (77)

Your Credit Union Limited

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

September 30, 2009

1. Nature of Business

The Credit Union is incorporated under the Credit Unions and Caisses Populaire Act of Ontario (the Act) and is therefore regulated through a regulatory framework that involves the Ministry of Finance, the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO).

The Credit Union is a member of Central 1 Credit Union (Central 1), successor to Credit Union Central of Ontario (CUCO).

2. Significant Accounting Policies

Changes in Accounting Policies

The Credit Union adopted revised CICA Handbook Section 1400, *General Standards of Financial Statement Presentation*, which was amended to include a requirement that management make an assessment of the entity's ability to continue as a going concern when preparing financial statements. The adoption of the revised standard required increased note disclosure but had no impact on the Credit Union's financial position, results of operations and cash flows.

Basis of Presentation

The Credit Union's financial statements are prepared in accordance with Canadian generally accepted accounting principles on a going concern basis. Management has made an assessment of the Credit Union's ability to continue as a going concern and concluded that there are no material uncertainties or conditions that would cast significant doubt upon the Credit Union's ability to continue as a going concern.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates and assumptions as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known.

Significant estimates include assumptions used in estimating the realizability of loans to members, specifically determining impairment and the required allowance for impairment; and the fair value of financial instruments, in particular the valuation of the Credit Union's investments in CUCO and the ABCP Limited Partnership.

Your Credit Union Limited

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

September 30, 2009

2. **Significant Accounting Policies** (continued)

Foreign Currency Translation

Transactions during the year in foreign currency have been converted to Canadian dollars using the exchange rate in effect at the date of the transaction. All monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the year-end. The resulting foreign exchange gains and losses are included in the statement of operations and undivided earnings for the year.

Financial Instruments

Financial assets are classified as held-for-trading, held-to-maturity, available-for-sale or loans and receivables. Financial liabilities are classified as held-for-trading or other liabilities. When initially recognized, financial assets and liabilities are recorded at fair value on the balance sheet. Subsequent to initial recognition, the measurement and income recognition of financial assets and liabilities depends on their classification.

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading, and are accounted for at fair value with the change in the fair value recognized in the statement of operations and undivided earnings. Those assets that have a fixed maturity date, where the Credit Union intends and has the ability to hold to maturity, are classified as held-to-maturity and accounted for at amortized cost using the effective interest method. Loans and receivables are also accounted for at amortized cost using the effective interest method. Member deposits and member shares are classified as other liabilities and are carried at amortized cost using the effective interest method. Financial instruments that do not have a reasonably determinable market value are also carried at amortized cost. The change in the allowance for impairment that is other than temporary for financial assets measured at amortized cost is recognized in the statement of operations and undivided earnings for the year.

Fair Values

The fair values used in these financial statements have been determined at market prices quoted by investment brokers, except for the fair value of the units in the ABCP Limited Partnership (LP), which has been determined by an independent valuation using other valuation techniques provided to the LP.

Derivative Financial Instruments

The Credit Union's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Credit Union hedges the underlying risk of deposit products linked to changes in the stock exchange index by entering into a financial contract whereby the counterparties are obligated to fund all future payments to members in return for a fixed rate of interest to be paid by the Credit Union. This interest expense is recognized over the term of the hedging relationship. The fair value changes for the year with respect to both the embedded derivatives in the deposit liabilities and the hedging instrument with the counterparty (Central 1) are recognized in operations as offsetting items.

Your Credit Union Limited

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

September 30, 2009

2. **Significant Accounting Policies** (continued)

Transaction Costs

Transaction costs, including loan origination costs, are recognized in the statement of operations and undivided earnings as incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit with Central 1, cheques and other items in transit, and short-term investments with original maturities at acquisition of 90 days or less, with the exception of short-term investments that are part of the liquidity reserve deposit with Central 1. All investments that form part of the liquidity reserve deposit with Central 1 are included in "Investments".

Allowance for Impaired Loans

A loan becomes impaired as a result of deterioration in credit quality to the extent that the Credit Union no longer has reasonable assurance of timely collection of the full amount of principal and interest. The Credit Union calculates the allowance for impaired loans on an individual account basis substantially as set out in directives issued by DICO, including By-law #6. For each loan more than 90 days in arrears, the allowance is calculated equal to the amount which the principal balance exceeds the estimated net realizable value of collateral, and all uncollected interest. In addition, allowance is made for those loans, not in arrears, the collection of which is doubtful.

Property and Equipment

Property and equipment are recorded at cost. Amortization of these assets is calculated using the straight-line method over the estimated useful lives set out below.

Buildings	20 to 40 years
Furniture and equipment	5 to 15 years
Office machinery	3 to 5 years
Automated Teller Machines (ATMs)	10 years
Leasehold improvements	10 years

Revenue Recognition

The Credit Union's primary revenue consists of interest revenue, including interest earned on loans and mortgages. The Credit Union recognizes interest revenue as it is earned with the passage of time, except for interest on impaired loans, which is not recognized as revenue.

Your Credit Union Limited
Notes to Financial Statements
(Tabular amounts expressed in thousands of dollars)

September 30, 2009

2. **Significant Accounting Policies** (continued)

Income Taxes

The Credit Union uses the liability method of tax allocation to account for income taxes. Future income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. These amounts are also re-measured annually to account for changes in tax rates.

Future Accounting Changes – International Financial Reporting Standards

The Canadian Accounting Standards Board will require all publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011, including the restatement of comparative period financial statements on the same basis. The transition from Canadian GAAP to IFRS will be applicable for Your Credit Union for the year ending September 30, 2012. The Credit Union has developed an IFRS transition plan and is participating in the National IFRS readiness project for Credit Unions sponsored by Credit Union Central of Canada. The Credit Union is currently evaluating the differences between its existing accounting policies and those provided by IFRS, including alternatives available on adoption. The assessment includes the potential impact on the Credit Union's financial statements, disclosures, financial reporting systems and controls.

Future Accounting Changes – Financial Instruments Disclosures

CICA Handbook Section 3862, *Financial Instruments - Disclosures*, was recently amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises and other entities that choose to apply this Section. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009, which would be the Credit Union's 2010 fiscal year. The Credit Union is currently evaluating the implications of the adoption of these revised disclosure requirements.

3. **Cash and Cash Equivalents**

The majority of cash is held at Central 1 in accounts bearing interest at approximately 0.25%. As at September 30, 2009, the Credit Union was holding \$501,000 Canadian denominated in U.S. dollars.

Your Credit Union Limited Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

September 30, 2009

4. Investments

	<u>2009</u>		<u>2008</u>
Liquidity Reserve Deposit	\$ 14,058	\$	13,978
Fixed Income Securities	8,424		3,069
Shares - Central 1	1,170		-
Shares - CUCO	248		1,615
ABCP Limited Partnership	840		1,307
	<u>\$ 24,740</u>	<u>\$</u>	<u>19,969</u>

The Credit Union has classified the liquidity reserve deposit, fixed income securities and units in the ABCP Limited Partnership as held-for-trading, and therefore carries them at fair value. The shares are not equity instruments under Canadian generally accepted accounting principles. They do not have a reasonably determinable market value and are therefore stated at amortized cost less an allowance, if required, for impairment which is considered to be other than temporary.

Liquidity Reserve Deposit

As a condition of maintaining membership in Central 1 in good standing, the Credit Union is required to maintain on deposit in Central 1's liquidity pool an amount equal to 7% of its total assets, adjusted at each calendar quarter end. The deposit can be withdrawn only through reductions in the balance of the Credit Union's own assets or upon withdrawal from membership.

At September 30, 2009, the Credit Union held term and discount deposits with Central 1 representing its "Liquidity Reserve Deposit", which bear interest from 0.37% to 4.31% and mature between November 2009 and May 2010.

Fixed Income Securities

At September 30, 2009, the Credit Union held bonds and term deposits with Concentra and Central 1, which bear interest from 0.25% to 4.37% and mature between October 2009 and April 2011.

Shares - Central 1 and CUCO

Central 1 was formed on July 1, 2008 as a result of the merger between CUCO and Credit Union Central of British Columbia (CUCBC). On July 1, 2008, CUCO sold substantially all of its net assets to Central 1 in exchange for shares and cash. Based on CUCO's audited financial statements at December 31, 2008, the value of the shares is impaired. As a result, the Credit Union wrote down the value of its CUCO shares by \$82,000, representing its proportionate share of the deficit.

As a condition of membership in Central 1, the Credit Union is required to maintain an investment in shares of Central 1, equal to 0.6% of the Credit Union's total assets at the conclusion of the preceding calendar year.

Your Credit Union Limited

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

September 30, 2009

4. Investments (continued)

No market exists for the shares of Central 1 except that they may be surrendered for proceeds equal to the paid-in value in accordance with withdrawal from membership provisions or when the Credit Union's own shares and deposits decline.

ABCP Limited Partnership

As a pre-condition of the sale of CUCO's net assets to Central 1, CUCO was required to divest itself of investments in certain third-party asset-backed commercial paper (ABCP). A limited partnership (LP) was created to acquire these investments, funded by member credit unions in proportion to their share investment in CUCO. On July 1, 2008, the ABCP with a total par value of \$186,916,000 was acquired by the LP at its estimated fair value of \$133,564,000. The Credit Union was required to purchase 1,307,000 units in the ABCP LP. As there was no active market for these ABCP investments, the fair values used to determine the acquisition price were provided by a specialized asset management firm engaged by CUCO to provide an independent valuation of the underlying assets.

The ABCP LP is governed by a Board of Directors that was elected by Ontario member credit unions and each limited partner will record its proportionate share of net income or loss in the ABCP LP as determined by Canadian generally accepted accounting principles and subject to an annual external audit. For the period ended December 31, 2008, the LP's audited financial statements reported a net loss of \$27,814,000. The Credit Union's proportionate share of that loss was \$272,000, which was charged against investment income. The LP's unaudited financial statements as at September 30, 2009 reported a net income of \$8,392,000. The Credit Union's proportionate share of that income was \$82,000, which was recorded in investment income.

During the current year, the Credit Union received \$277,000 in distributions from the ABCP LP, a result of interest payments received by the LP and the maturity of investments held by the LP. These distributions were recorded against the investment in the ABCP LP.

The overall approach to the valuation of the Asset Backed Notes held by the ABCP LP at September 30, 2009 was as follows:

- Gather all available facts concerning the new notes that were issued during the year;
- Where certain facts remain unavailable, make estimates based on market knowledge or comparable products in the market; and
- Estimate the price that prospective investors will pay for the notes, using a methodology appropriate for specific notes of either a discounted cash flow model, an estimate of value factoring in the underlying asset for single or homogeneous asset notes, or a net asset value.

Based upon a sensitivity analysis of the assumptions used, the expected yield required by a potential investor remains the most significant assumption included in the fair value estimate. There can be no assurance that the estimate will be realized. Subsequent adjustments, which could be material, may be required in future reporting periods.

Your Credit Union Limited

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

September 30, 2009

5. Liquidity Requirements

The Act requires the Credit Union to maintain liquid assets of at least 8.00% of the amount of deposits and borrowings of the Credit Union. Based on internal unaudited financial reports and filings to DICO, the Credit Union remained in compliance with the Act and regulations regarding liquidity requirements throughout the year. As at September 30, 2009 the Credit Union had liquid assets of 17.46% of the amount of deposits and borrowings.

The Credit Union has a liquidity policy in place that addresses limits on the sources, quality and amount of liquid assets to meet normal operations, contingency funding for significant deposit withdrawals, and regulatory requirements.

6. Loans to Members

	2009	2008
Personal loans	\$ 11,629	\$ 14,762
Residential mortgages	120,947	121,265
Commercial loans	22,697	12,705
	\$ 155,273	\$ 148,732

Allowance for losses on loans

	2009	2008
Balance, beginning of year	\$ 802	\$ 1,105
Add: Recoveries on loans previously written off	32	9
	834	1,114
Deduct: Loans written off	134	486
	700	628
Provision charged to operations	151	174
Balance, end of year	\$ 851	\$ 802

Your Credit Union Limited
Notes to Financial Statements
(Tabular amounts expressed in thousands of dollars)

September 30, 2009

6. Loans to Members (continued)

The allowance for impaired loans consists of an allowance for specific impaired loans and a non-specific allowance for potential losses on other loans. The gross principal amounts of specific impaired loans at the end of the year are as follows:

	2009	2008
Personal loans	\$ 288	\$ 250
Residential mortgages	785	667
Commercial loans	935	-
Gross principal amount of loans	2,008	917
Less: Fair value of security	(1,628)	(690)
Allowance for specific impaired loans	\$ 380	\$ 227

The non-specific allowance for potential losses at September 30, 2009 amounts to \$103,000 (2008 - \$275,000) for personal loans, \$122,000 (2008 - \$121,000) for residential mortgages and \$246,000 (2008 - \$179,000) for commercial loans.

Personal loans

	2009						2008	
	On Demand	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 7 years	Total	Total
Variable	\$ 8,229	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,229	\$ 9,254
Fixed	-	305	712	808	1,110	848	3,783	6,010
	\$ 8,229	\$ 305	\$ 712	\$ 808	\$ 1,110	\$ 848	12,012	15,264
Less:								
Allowance for losses on loans							383	502
							\$ 11,629	\$ 14,762
Effective interest rate before allowance for losses on loans	6.59%	11.14%	10.93%	10.02%	9.57%	9.06%	7.64%	9.39%

Your Credit Union Limited Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

September 30, 2009

6. Loans to Members (continued)

Personal loans consist of consumer installment loans, lines of credit and other personal loans. These loans may be repaid in full or in part at any time without notice or penalty. Personal loans may be amortized over a maximum of 7 years, unless collateralized by real property in which case the amortization period can be up to 15 years. Interest rates on personal loans and other advances may be fixed for a maximum of 7 years.

The Credit Union mitigates its credit risk exposure with respect to personal loans by limiting the total unsecured personal loans to each member to \$50,000, by performing a thorough credit analysis prior to approval of the loan and by obtaining collateral when necessary.

Residential mortgages and commercial loans

							2009	2008
	On Demand	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 7 years	Total	Total
Variable	\$ 26,069	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,069	\$ 22,085
Fixed	-	23,000	6,810	15,199	22,342	50,692	118,043	112,185
	\$ 26,069	\$ 23,000	\$ 6,810	\$ 15,199	\$ 22,342	\$ 50,692	144,112	134,270
Less:								
Allowance for losses on loans							468	300
							\$ 143,644	\$ 133,970
Effective interest rate before allowance for losses on loans	3.66%	4.36%	5.03%	5.35%	5.72%	5.19%	5.00%	5.41%

Residential mortgages and commercial loans include \$31,206,000 (2008 - \$34,110,000) of mortgages collateralized by real property such as a principal residence and non-owner occupied properties insured by Canada Mortgage and Housing Corporation (CMHC). These mortgages yield interest at an average of 4.99% (2008 - 5.21%).

The amount of commercial loans included in the above tables before the allowance for doubtful loans was \$23,043,000 as at September 30, 2009 (2008 - \$12,884,000) and consisted of mortgages on commercial and investment properties. There were no loans to unincorporated associations at the end of the year. The interest earned on commercial loans was \$933,000 (2008 - \$836,000) during the year.

Your Credit Union Limited

Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

September 30, 2009

6. Loans to Members (continued)

As at September 30, 2009, conventional mortgage advances may be made up to a maximum of 80% of the appraised value of the property. Mortgages in excess of 80% of the value of the underlying property are insured with CMHC. The maximum amount of residential mortgages to a member at any given time is \$700,000 (\$2,800,000 for commercial mortgages).

Mortgages may be pre-approved and interest rates committed up to 90 days prior to the mortgage being advanced. As at September 30, 2009 residential mortgages and commercial loans totaling \$13,672,000 (2008 - \$3,590,000) had been approved but not yet disbursed, the longest term of which was five years.

Mortgages are repaid in weekly, bi-weekly, monthly or bi-monthly installment payments and are generally amortized over a maximum of 25 years. Mortgages may be prepaid at the mortgagor's option by one lump sum payment per year not exceeding 20% of the original mortgage amount, and/or by increasing the monthly installments once yearly by 20% of the previous installment amount. Repayment in full prior to maturity is subject to a penalty equal to the greater of:

- 3 months' interest on the outstanding mortgage balance; and
- the interest rate differential between the current market rate and effective interest rate applied on the outstanding balance of the remaining term of the mortgage.

Interest rates on mortgages are at a variable rate or they may be fixed for a maximum of 7 years.

7. Property and Equipment

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 456	\$ -	\$ 456	\$ 456	\$ -	\$ 456
Buildings	5,062	955	4,107	5,125	832	4,293
Furniture and equipment	889	422	467	883	404	479
Office machinery and ATMs	866	647	219	905	643	262
Leasehold improvements	29	7	22	287	237	50
	\$ 7,302	\$ 2,031	\$ 5,271	\$ 7,656	\$ 2,116	\$ 5,540

Your Credit Union Limited
Notes to Financial Statements
(Tabular amounts expressed in thousands of dollars)

September 30, 2009

8. Members' Deposits

	2009	2008
Savings and chequing accounts	\$ 79,367	\$ 72,002
Term deposits	32,924	36,357
Registered plans (RRSPs, RRIFs and TFSAs)	67,079	65,227
Leave plans	3,357	3,376
	182,727	176,962
Accrued interest payable	1,703	1,981
	\$ 184,430	\$ 178,943

Summary of members' deposits (excluding accrued interest payable)

	2009				2008	
	On Demand	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Total	Total
Savings and chequing accounts	\$ 79,367	\$ -	\$ -	\$ -	\$ 79,367	\$ 72,002
Term deposits	-	23,513	7,216	2,195	32,924	36,357
Registered plans	6,219	31,419	21,286	8,155	67,079	65,227
Leave plans	3,357	-	-	-	3,357	3,376
	\$ 88,943	\$ 54,932	\$ 28,502	\$ 10,350	\$ 182,727	\$ 176,962
Effective interest rate	0.69%	2.82%	3.06%	3.09%	2.01%	2.59%

Included above are members' deposits of \$999,000 Canadian denominated in U.S. dollars.

Your Credit Union Limited Notes to Financial Statements

(Tabular amounts expressed in thousands of dollars)

September 30, 2009

9. Members' Shares

	<u>2009</u>	<u>2008</u>
Membership shares	\$ 720	\$ 746
Class B Investment shares	2,772	2,857
Dividends payable on Class B Investment shares	94	148
	<u>\$ 3,586</u>	<u>\$ 3,751</u>

Membership shares along with retained earnings represent the members' residual interest in the Credit Union's net assets and are included in regulatory capital. The shares are redeemable at their paid-up amount when the member withdraws from membership in the Credit Union. As a condition of membership, each member is required to maintain a minimum of 10 shares at \$5 per share. Members under the age of 18 are not required to purchase membership shares.

Dividends are at the discretion of the Board of Directors. As at September 30, 2009, the Credit Union had 13,808 (2008 - 14,192) memberships.

The holders of Class B Investment shares are entitled to receive non-cumulative dividends which will be declared by the Board of Directors and paid annually provided the Credit Union complies with all capital adequacy and liquidity requirements. The Board of Directors has defined an appropriate dividend rate to be a rate which exceeds the Credit Union's 5-year term deposit rate by 1.0%, and it has also indicated that its intention is to pay these dividends in the form of additional Class B Investment shares. The \$94,000 (2008 - \$144,000) of dividends declared on Class B Investment shares are included in interest expense (Note 12) for the year ended September 30, 2009.

Class B Investment shares were not redeemable for five years after their issuance on September 30, 2000. Since September 30, 2005, holders of these shares could request redemption of some or all of their shares and the Credit Union could redeem the shares to a maximum of 10% of the total Class B Investment shares outstanding at the previous year-end. Effective September 30, 2005, the Credit Union has the option of redeeming all or any portion of these shares, subject to the capital and liquidity requirements of the Act. Prior to the 2007 fiscal year there were no redemptions. During the fiscal year 2009, the Board of Directors approved redemptions of \$216,000 (2008 - \$303,000) plus dividends for the 2009 fiscal year up to the date of redemption of \$9,000 (2008 - \$8,000), for a total payment of \$225,000 (2008 - \$311,000).

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10. Regulatory Capital

The Credit Union has a capital management policy in place that addresses the quantity, quality, and composition of capital needed that reflects the inherent risks of the organization, to support the current and planned operations, and to meet regulatory requirements.

The Act requires the Credit Union to maintain regulatory capital at 4.00% (2008 - 4.25%) of total assets and 8.00% of risk weighted assets. Based on internal unaudited financial reports and filings to DICO, the Credit Union remained in compliance with the Act and regulations regarding regulatory capital throughout the year.

As at September 30, regulatory capital consists of:

	2009	2008
Tier 1 capital:		
Members' shares	\$ 3,586	\$ 3,751
Undivided earnings	7,224	7,617
	10,810	11,368
Tier 2 capital:		
Non specific allowance for losses on loans	471	575
	\$ 11,281	\$ 11,943
Total regulatory capital	5.75%	6.24%
Percent of total assets	13.92%	16.91%
Percent of total risk weighted assets	13.92%	16.91%

Under the Act, Tier 2 capital cannot exceed Tier 1 capital for calculation purposes of the Credit Union's regulatory capital.

11. Interest Revenue

	2009	2008
Personal loans	\$ 1,085	\$ 1,681
Residential mortgages	6,045	6,350
Commercial loans	933	836
	\$ 8,063	\$ 8,867

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12. Interest Expense

	2009	2008
Savings and chequing accounts	\$ 521	\$ 897
Term deposits	1,180	1,379
Registered plans (RRSPs, RRIFs and TFSAs)	2,258	2,254
Leave plans	18	42
Funds borrowed from Central 1	5	17
Dividends on Class B Investment shares (Note 9)	86	144
	\$ 4,068	\$ 4,733

13. Statement of Cash Flows

Net changes in non-cash working capital items related to operating activities

	2009	2008
Accrued interest receivable	\$ 60	\$ (49)
Accounts receivable	9	25
Income taxes receivable/payable	62	(63)
Prepaid expenses and other assets	(105)	(66)
Accounts payable and accrued liabilities	(294)	108
	\$ (268)	\$ (45)

14. Other Statutory Information

Restricted Party Transactions

The total amount of loans and deposits that relate to restricted parties, as defined in Regulation 82 of the Act, at September 30, 2009 are \$732,000 and \$332,000 respectively (2008 - \$1,471,000 and \$875,000). Interest revenue of \$65,000 (2008 - \$67,000) and interest expense of \$24,000 (2008 - \$26,000) relates to restricted parties. There are 12 loans to restricted parties at the end of the 2009 fiscal year (2008 - 86 loans). No provision for losses is required for these loans.

Expenses Relative to Board of Directors

There was no remuneration paid to Board of Directors and committee members during the year. Total expenses for Board and committee meetings, training and conferences were \$33,000 (2008 - \$41,000).

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14. **Other Statutory Information** (continued)

Commissions

The total amount of commissions earned by the Credit Union on the sale of life and disability insurance on behalf of an underwriter was \$179,000 (2008 - \$247,000).

Future Disclosure Requirements - Executive Remuneration

As a result of changes to the Act, effective October 1, 2009, the Credit Union will be required to disclose the name, title, salary, bonuses and monetary value of benefits received by officers or employees of the Credit Union whose total remuneration for the year is over \$150,000. This information will be included in the financial statements for the year ending September 30, 2010.

15. **Fair Values**

The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, are equivalent to their respective carrying values given the short-term nature of the accounts. Investments, with the exception of shares, are measured at fair value on the Balance Sheet. The difference between the fair value of all other financial assets and financial liabilities, specifically loans to members, members' deposits and members' shares, is not considered material in relation to the financial statements as a whole.

16. **Financial Risk Management**

The Credit Union is exposed to a variety of financial risks inherent in its operations. It is the policy of the Credit Union to manage significant risks efficiently and effectively through an Enterprise Risk Management Process, which includes a comprehensive infrastructure of policies, procedures, methods, oversight and review designed to reduce the significant risks and to manage those risks within an appropriate threshold. The Credit Union's Audit Committee and Board of Directors are provided with timely and complete reports on the management of significant risks. Significant risks managed by the Credit Union include liquidity, credit and market risks.

Liquidity Risk

Liquidity risk is defined as the risk that the Credit Union will not be able to pay obligations when they fall due or not be able to repay depositors when funds are withdrawn. To mitigate this risk, the Act requires that the Credit Union maintain, at all times, liquidity that is adequate in relation to the business carried on. Management calculates the Credit Union's liquidity position on a monthly basis to assess compliance with liquidity requirements. These balances are communicated to the Credit Union's Audit Committee and the Board of Directors regularly throughout the year.

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16. Financial Risk Management (continued)

The Credit Union manages liquidity by continuously monitoring actual daily cash flows, monitoring the maturity dates of financial assets and financial liabilities, and maintaining adequate cash reserves, including its Liquidity Reserve Deposit (see Note 4) and to meet the Credit Union's liquidity requirements under the Act (see Note 5). The Credit Union also has collateral arrangements in place at September 30, 2009 (see Note 19). The Credit Union's financial instruments that significantly impact liquidity risk are investments, loans to members, members' deposits and members' shares.

Credit Risk

Credit risk is defined as the risk of financial loss to the Credit Union related to member loans as the result of a member failing to meet their obligations in accordance with contractual terms.

Providing credit facilities to qualified members is one of the Credit Union's primary sources of earnings and is the area where the Credit Union is exposed to the most significant risk. Approval of these facilities is based on the member's ability to repay principal and interest over the term of the facility, which is determined by following Board approved policies, which includes assessing the member's credit history, character, collateral and debt servicing capacity. In addition, the Credit Union provides to its employees comprehensive training to ensure compliance with Credit Union lending policies and procedures. Further, formal policies governing approval of credit facilities including acceptable risk assessment and security requirements are in place.

Overdue loan accounts, or lending delinquency, is closely monitored and reported on a timely and frequent basis to ensure that all allowances for potential loan losses are adequately provided for and written-off when collection efforts have been exhausted. Credit risk is mitigated primarily by the nature and quality of the underlying security as prescribed by the Credit Union's lending policies and procedures.

Credit risk associated with cash and cash equivalents and investments is minimized substantially by ensuring that these assets are invested in creditworthy parties identified in the Credit Union's policy manual. An ongoing review is performed to evaluate changes in the status of the issuers of securities authorized for investment under the Credit Union's Finance Policy.

Management monitors the Credit Union's credit risk on a monthly basis and reports to the Audit Committee and the Board of Directors regularly throughout the year.

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16. **Financial Risk Management** (continued)

Market Risk

Market risk is defined as the risk that the Credit Union will not have the ability to meet its business objectives and will be adversely affected by volatility in market rates, including interest rates and foreign currency exchange rates.

- **Interest Rate Risk**

Interest rate risk is the risk that a movement in interest rates will have a material impact on the financial position of the Credit Union. The Credit Union manages and controls interest rate risk primarily by managing asset and liability maturities.

The Credit Union manages its exposure to the interest rate risk of its cash and cash equivalents by maximizing the interest income earned on excess funds while maintaining the minimum liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash do not have a significant impact on the Credit Union's results of operations. The Credit Union's primary objective with respect to its investments is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory investment return.

The Credit Union measures interest rate risk on a quarterly basis and reports the results to the Audit Committee and the Board of Directors.

- **Foreign Currency Exchange Risk**

Foreign currency risk exposure results if financial assets or financial liabilities are denominated in a currency other than Canadian dollars. The Credit Union is subject to currency risk through its U.S. dollar denominated operating activities, which at September 30, 2009 includes U.S. holdings of cash and cash equivalents. The Credit Union limits its exposure to foreign currency risk by maintaining U.S. dollar denominated assets to offset U.S. dollar denominated liabilities, and accordingly does not use derivative instruments to reduce its exposure to foreign currency risk.

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17. Interest Rate Sensitivity

The Credit Union's fixed rate financial instruments are exposed to interest rate price risk, which may have a positive or negative impact on the results of operations. The Credit Union's variable rate financial instruments are exposed to interest rate cash flow risk, which may have a positive or negative impact on the results of operations.

As at September 30, 2009, an immediate and sustained 100 basis points (1%) increase in interest rates would have resulted in an approximate decrease to income before income taxes of \$141,000. An immediate and sustained 100 basis points (1%) decrease in interest rates would have resulted in an approximate decrease to income before income taxes of \$2,000.

There are several assumptions used to prepare the information on interest rate risk sensitivity.

- The most significant assumption used in the interest rate risk analysis is that of interest rate forward yield curves. These curves are constructed based on market data. Several yield curves are used in the analysis. They are the mortgage curve, term curve, short-term yield curve and zero yield curve.
- Another assumption is that of core deposits. This means that a certain portion of the Credit Union's savings and chequing accounts and undivided earnings balances are allocated to various periods to fill gap differences between total loans to members and total deposits. A portion of these core deposits is deemed to be variable and, therefore, allocated to the one-month period and the rest is spread evenly over the remaining 60 months.
- The last assumption used is that of mortgage pre-payment. This assumes that 5% of the Credit Union's total mortgages balances are prepaid and therefore these cash flows are allocated accordingly to various months throughout the life of the mortgages.

The above methods and assumptions are consistent with the prior year.

The sensitivity analyses included in this note should be used with caution as the changes are hypothetical and are not predictive of future performance. The above sensitivities are calculated with reference to year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analyses, the effect of a variation in a particular assumption on the fair value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

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18. Commitments

Collateral arrangements

The Credit Union has assigned its book debts and signed a general security agreement related to two lines of credit with Central 1. The limits on the lines of credit were \$3,690,000 Canadian (2008 - \$3,498,000) at prime and \$100,000 U.S. (2008 - \$100,000) at prime and remain unused at year end.

The Credit Union has an additional line of credit with Central 1 in the amount of \$100,000 Canadian at prime, which is restricted as security for the derivative financial instruments (Note 19). At September 30, 2009 \$nil (2008 - \$nil) of the line of credit has been restricted as security. In addition, the Credit Union has authority to borrow up to \$4,610,000 (2008 - \$4,802,000) from Central 1. At September 30, 2009 \$nil (2008 - \$nil) borrowings are outstanding.

Lines of credit to members

As at September 30, 2009 the total approved lines of credit to members was approximately \$106,352,000 (2008 - \$99,577,000) of which approximately \$68,886,000 (2008 - \$64,386,000) has been disbursed.

Lease commitments

The minimum annual payments under an operating lease are \$60,000 per year to December 31, 2012.

Service agreements

The minimum annual payments under service agreements in each of the next five years and in aggregate are as follows (expressed in thousands of dollars):

2010	\$ 400
2011	378
2012	360
2013	360
2014	90
	<u>\$ 1,588</u>

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19. Derivative Financial Instruments

The Credit Union has sold Index-Linked Term Deposits to its members. These are either 3 or 5 year deposits that pay the members interest based on the performance of the TSX 60 index. The Credit Union has entered into hedge agreements with Central 1 to offset the exposure associated with this product, whereby the Credit Union pays Central 1 a fixed rate of interest on the face value of the Index-Linked Term Deposits. At the end of the terms of the deposits, Central 1 pays the Credit Union an amount equal to the amount that will be paid to the member based on the performance of the TSX 60 index since Central 1 has effectively taken full responsibility for the interest rate risk. At September 30, 2009 the Credit Union has \$4,966,000 (2008- \$3,458,000) in Index-Linked deposits included in members' deposits.

These hedging derivatives are recorded at fair value, but changes in fair value only impact the results of operations to the extent that they do not perfectly offset changes in the fair value of the item being hedged (i.e. "hedge ineffectiveness"). Any hedge ineffectiveness would be recorded in the Statement of Operations. The Credit Union's hedge agreements with Central 1 are such that hedges should very closely match the items that are hedged and, as a result, there is no hedge ineffectiveness.

20. Segment Disclosures

The Credit Union operates in the loans and deposit-taking industry in Ontario and, based on the Credit Union's internal management reporting structure, only has one operating segment. Products and services offered to its members include mortgage loans, personal loans, commercial loans and lines of credit. Management, the Audit Committee and the Board of Directors regularly review the risks and returns related to each of these products and services and make operating decisions accordingly.

No single member accounts for 10 percent or more of the Credit Union's interest revenue.

21. Comparative Amounts

In certain instances the 2008 amounts presented for comparative purposes have been reclassified to conform to the financial statement presentation adopted for the current year. These reclassifications had no impact on the Credit Union's financial position, results of operations and cash flows.
